

Staff Report

for the Regular Meeting of the Board of Directors May 23, 2018

TO: Board of Directors
FROM: Marvin Davis, MBA, CPA, Finance Manager/Treasurer
DATE: May 16, 2018
SUBJECT: Modification to Water Regulations

FINANCE

RECOMMENDATION:

Approve changes to Water Regulation 10.20.01 and 6.12, as recommended by the Administrative Practices Committee.

BACKGROUND:

The District charges a Surcharge Modifier as defined in Water Regulations Section 10.20.01 District Finance Waterline Extension Program (DFWLE), when lending on infrastructure agreements. Currently, the surcharge modifier (4%) is inconsistent with investment earnings on other District Long-term investments.

Staff recommends changing the surcharge modifier within the Water Regulations to the US 5-Year Agency (Federal Farm Credit Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, etc.) Bond Rates published on April 1 by the District's investment broker, currently Robinson Capital, LLC.

The US 5-Year rate represents the amount earned on District long-term reserves within its' current portfolio. By April 1, the Finance Manager/Treasurer will provide the surcharge modifier to staff for use on all District lending agreements. During negotiations, agreements are subject to different surcharge modifiers annually. This process ensures earnings on infrastructure project lending remain consistent with the Districts' current portfolio.

BUDGETARY IMPACT:

There is no impact to the 2018 budget of \$527,233 (Pipeline Reimbursement, Connection Fees, and Capacity Charges) by the Board's decision as these

revenues are under the 4% surcharge modifier. Accounting rules require recording these contracts as deferred/unearned revenues and realizing them over the lending period.

The attached schedule provides the estimated future and historical loss of investment earnings of the Board's decision to reduce the surcharge modifier. Staff analyzed the future impact by examining the Lodestar-Victoria project. Based upon the attached analysis, if the District reduced the Lodestar-Victoria project's surcharge modifier (4.0% to 2.5% current Agency Rate) the total loss in revenue (lending income) is \$203,758.

In addition, the analysis demonstrates revenue loss over the prior five years assuming the reduced surcharge modifier (4.0% to 2.5%). Based on historical DFWLE projects under the reduced surcharge modifier, total loss in revenue (lending income) is \$413,475.

Attachment:

- Surcharge Modifier: Illustrative
- Water Service Rules & Regulations Section 6.12
- Water Service Rules & Regulations Section 10.20.01

Nevada Irrigation District

Surcharge Modifier: Future Impact
Lodestar-Victoria Impact: Illustrative (14 Parcels)

<u>DFWLE Costs</u>		Loan (90%)	\$ 687,769	(\$54,585 less 10%) * 14 parcels	
Pipeline Reimburse Fee (PRF)	637,494	Surcharge Modifier	4.00%	2.50%	
		Years to Maturity	30		
<u>District Participation</u>		<u>Lending</u>			
Engineering Upfront	6,300	Monthly Rate	\$ 3,284	\$ 2,718	
Fire Hydrants	20,000	Total Paid	1,182,066	978,307	
Contingency	2,000	Interest Paid	494,296	290,538	
	28,300	<u>Revenue (Lending Income)</u>			
Participant PRF	609,194	Pipeline Reimbursement Fee	162,432		
Per Parcel PRF (14)	43,514	Meter Installation	2,382		
Meter Installation	638	Capacity Fees	38,945		
Capacity Fee	10,433	Total Loss of Revenue	\$ 203,758		
Total Per Parcel	54,585				
Required Deposit (10%)	5,458				

Surcharge Modifier: Historical Impact							
US 5-Year Agency Bonds: Illustrative (63 Parcels)							
Loan	\$ 1,395,649		# Parcels	# Loaned	2013	2015	2018
Surcharge Modifier	4.00%	2.50%	<u>Projects</u>				
Years to Maturity	30		Table Meadow	23	12		457,637
			Caroline/Wintern	14	8	200,506	
			E. Hacienda	35	30	559,820	
			Rattlesnake	14	13	177,686	
<u>Lending</u>				86	63		
Monthly Rate	\$ 6,663	\$ 5,515					
Total Paid	2,398,695	1,985,220					
Interest Paid	1,710,926	1,297,451					
				\$\$ Loaned	1,395,649		
Revenue (Lending Income)	\$ 413,475						

6.12

TERM PAYMENTS

The General Manager and the Finance Manager, together, are authorized to sign term payment agreements with individual property owners under the following guidelines:

(a) Up to a 120-month period and a maximum amount of up to \$20,000.00 can be authorized for District fees and charges related to a new residential treated water service including but not limited to, capacity charges, meter and backflow prevention device installation charges, and buy-in fees to improvement districts. The ~~interest~~ rate to be charged on all term payment agreements ~~is defined in Water Rules & Regulations 10.20.01 as a Surcharge Modifier will be four (4) percent and such rate may be changed from time to time by the Board of Directors as economic conditions warrant.~~ Late term payments will pay charges equal to the rate shown for the late payment penalty in Section 6.01.01 of these Regulations.

(b) Up to a 12-month repayment period can be authorized for customers to pay delinquent water account charges. A late payment penalty shall be charged at the rate shown in Section 6.01.01.

(c) The District has the right to terminate water service and remove the water meter upon failure to pay.

eff. 7/13/94; rev. 6/11/03; rev. 4/14/04; 3/25/2009; 6/8/2016

SECTION 10

TREATED WATER SYSTEM EXTENSIONS

10.20.01 Surcharge Modifier

A surcharge will be used to compensate the District for the loss of interest earnings as a result of lending funding on ~~any particular District projects DFWLE project. The surcharge will be used to modify the SEC.~~ The surcharge modifier will be determined by the Finance Manager/Treasurer and based on the United States 5-Year Agency Bond Rates published by the District's Investment Broker on April 1. ~~District Board of Directors on a case by case basis by first establishing the rate of interest the District funds could have otherwise earned.~~ The surcharge modifier will be calculated as 1) the Capital Recovery Factor 2) multiplied by the number of billing periods within the project cost recovery period ~~(30 years).~~